FINAL REPORT
OF THE
INTERIM STUDY COMMITTEE ON
ECONOMIC DEVELOPMENT ISSUES

Indiana Legislative Services Agency
200 W. Washington Street, Suite 301
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1999

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INTERIM STUDY COMMITTEE ON ECONOMIC DEVELOPMENT ISSUES

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I. LEGISLATIVE COUNCIL DIRECTIVE

The Interim Study Committee on Economic Development Issues was established by resolution of the Legislative Council. The Committee consists of twelve members: six Senators and six Representatives.

During the 1999 interim, the Legislative Council directed the Committee to do the following:

(1) Study economic development and job creation issues in Indiana.

(2) Conduct the statutorily mandated evaluations of the effectiveness of tax abatement programs and local redevelopment commissions to create new jobs, increase income, and increase the tax base in Indiana.

(3) Study the impact of changes in gaming laws in surrounding states on Indiana's gaming industry.

II. INTRODUCTION AND REASONS FOR STUDY

Economic development and job creation issues in Indiana

Indiana's citizens face numerous economic development issues as they prepare to enter the twenty-first century, such as: ensuring that Indiana's traditional industrial base is retained and remains competitive; increasing Indiana's participation in the job growth resulting nationally from high-tech and other high-growth industries; and reversing the relative decline of the state's per capita income relative to the national average.

Because of these and other issues, the Legislative Council requested that the Committee perform a broad study of economic development and job creation issues in Indiana.

Tax abatement and redevelopment commissions \ tax increment financing

Tax abatement and tax increment financing programs are widely used methods of encouraging and facilitating local economic development. Because these economic development tools involve a significant amount of property tax revenue and affect many taxpayers and numerous units of local government, the Indiana General Assembly requires an evaluation of these programs on a quadrennial basis. The Legislative Council assigned this review function to the Committee.

Changes in gaming laws in surrounding states

Because of recent changes and proposed changes to gaming laws in surrounding states (including Illinois, Missouri, Michigan, and Kentucky), the Legislative Council requested the Committee to study the impact that these new laws might have on Indiana's gaming industry. Gaming in Indiana has grown into an industry that pays millions of dollars in taxes annually, employs thousands of Indiana citizens, and has a significant social impact on the state.

III. SUMMARY OF WORK PROGRAM

The Committee held five meetings during the interim following the conclusion of the 1999 Session of the General Assembly. Four meetings were held at the State House in Indianapolis, and one meeting was held at the Purdue Research Park in West Lafayette, Indiana.

The first meeting of the Committee during the 1999 interim was held on August 3, 1999. This meeting was devoted to an introduction and discussion of many issues affecting economic development in Indiana. The Commission heard testimony on the economic development efforts of the Indiana Department of Commerce and the Indiana Rural Development Council. It also heard testimony on Indiana's enterprise zone program and on property tax abatement and tax increment financing.

At its first meeting, the Committee also heard testimony concerning the following: (1) the need to renew and perhaps alter Indiana's research expense credit; and (2) the importance of infrastructure to economic growth in Indiana. Representatives of the Indiana Economic Development Council presented an overview of "Break Away Growth," the Council's strategic plan for the Indiana economy.

The second meeting of the Committee was held on August 24, 1999, at the Purdue Research Park. At this meeting, the Commission heard testimony on the issues related to turning university research into marketable products and increased employment. The Committee toured the research park and interviewed a number of tenant companies in the Park's small business incubator. The Committee heard from witnesses who described various technical assistance programs supported by Purdue University and the Purdue Research Foundation. The dean of Purdue University's School of Agriculture also testified concerning the global challenges and opportunities facing agriculture and food science and how these issues affect Indiana's economic growth.

The Committee heard testimony concerning the findings of the Indiana Human Capital Retention Project and the issues related to the out-migration of a substantial portion of Indiana's college graduates. The details of the Indiana Economic Development Council's proposed strategy to encourage the location of growth companies in Indiana were described to the Committee at this meeting. In addition, the Committee also heard testimony from citizens concerning the lack of capital available to new businesses in Indiana.

The third meeting of the Commission was held on September 14, 1999. At this meeting, the Commission heard testimony on issues related to enterprise zones, property tax abatement, redevelopment commissions, and tax increment financing. The Committee was also given an account of the recently enacted Twenty-First Century Research and Technology Fund. In addition, the Committee heard a discussion of the economic development issues related to Indiana's insurance premiums tax.

The fourth meeting of the Committee was held on October 5, 1999. The Committee heard testimony on issues related to the economic, fiscal, and social consequences of gaming. Much of the testimony was focused on the possible effects that changes and potential changes to gaming laws in nearby states might have on Indiana's gaming industry and the employment, investment, and tax revenue related to gaming. The Committee also heard from witnesses who believe that gaming in Indiana has had harmful consequences for the state.

The fifth and final meeting was held on October 26, 1999. At this meeting, the Committee voted to recommend the following preliminary drafts: PD 3524 (with amendments), concerning property tax abatement for research and development equipment; PD 3525, concerning sales tax exemptions for research and development equipment and for power used for research and development; PD 3526, concerning the Indiana research expense credit; and PD 3530, concerning enterprise zones. At this meeting, the Committee also discussed and adopted its final report that will be submitted to the 2000 General Assembly. The final report was adopted by a unanimous consent vote of the eleven Committee members attending the meeting.

IV. SUMMARY OF TESTIMONY

A. General Economic Development Issues

Department of Commerce Testimony

The Committee heard testimony from the Executive Director of the Indiana Department of Commerce concerning the Department's economic development activities and recent international trade missions and trade initiatives affecting Indiana. According to this testimony, the Department of Commerce has focused on: (1) working with local communities to preserve the employment base and to attract new jobs; and (2) strengthening foreign trade and foreign investment in Indiana.

The Committee heard testimony that:

(1) Indiana's foreign exports were over $13.4 billion in 1998, which represents an increase of 2% from the previous year (while the United States as a whole had suffered a 1% decrease in direct exports over this period);
(2) in 1998 more than $14 million in Training 2000 grant funds were allocated; more than $1.8 million was allocated from the Industrial Development Grant Fund; and more than $34 million in Economic Development for a Growing Economy ("EDGE") credits were allocated;
(3) the Department of Commerce believes a number of economic development successes had been achieved during the 1999 Session of the General Assembly: $1.3 billion in tax cuts; the creation of the Twenty-First Century Research and Technology Fund; funding for the Internet 2; certain changes to the Capital Access Program and the Industrial Development Grant Fund; and the creation of the community college system; and
(4) the Department was disappointed in the failure of certain economic development proposals during the 1999 Session of the General Assembly: the General Assembly's failure to pass legislation concerning the research and development tax credit, property tax abatements for research and development

equipment, and brownfield tax credits; the failure to address the tax structure for financial institutions and insurance companies; and the failure to enact a full-day kindergarten funding program.

The Director of the Department also spoke on a number of other economic development issues, including: (1) the need to take advantage of research conducted in Indiana's institutions of higher education; (2) the need to enhance capital formation; and (3) the fact that a large percentage of Indiana's college graduates leave the state.

Need to Shift to High-Growth, High-Pay Jobs

The President of the Indiana Economic Development Council testified before the Committee on the issue of long-range goals and strategies for the Indiana economy. This witness testified that in the late 1950s, Indiana had a higher per capita income than the United States average, but that Indiana's per capita income has fallen to 91% of the national average. He also explained that, in real dollar terms, the national average wage per job has increased, while Indiana's wage per job has been fairly stagnant.

The Committee then heard a description of six goals that had been included in the Council's latest strategic plan for Indiana, "Break Away Growth":

(1) raising Indiana's per capita income and average annual wages above the national average;
(2) attaining the best purchasing power of any state in the nation;
(3) having the lowest poverty rate of any state in the Midwest;
(4) bringing Indiana's productivity above the national average and having it rank first in the Midwest;
(5) having the highest "livable place rating" in the Midwest; and
(6) having the highest rate of growth in high-skill, high-pay jobs in the Midwest.

The President of the Council also testified that it is important to: (1) improve the performance of Indiana's "mainstay" industries; (2) improve Indiana's basic business and tax climate; and (3) accelerate the development of "frontier" industries and high-growth, high-pay industries. He stated that Indiana's economic development efforts should focus on growth companies that have high-pay jobs, research and development investments, and technological innovations.

This witness also testified before the Committee concerning the characteristics of growth companies, and he provided a number of policy recommendations concerning those companies. He recommended that the state do the following:

(1) provide incentives for local investment pools that take equity in small start-up companies;
(2) shift the state economic development budget to a five-year period;
(3) make research and development equipment, computers, and other high-tech equipment eligible for the same sales tax exemptions and personal property tax abatements as manufacturing equipment;
(4) focus assistance through self-selecting industry alliances; and
(5) include an "innovations development contingency fund" in the state budget.

The Committee also received reports from staff concerning the strategic economic development plans prepared by Michigan and Kentucky as those states attempt to shift their economies toward high-tech and high-growth industries.

Expansion of EDGE credits

A number of witnesses testified that local governments need an economic development tool that will help them retain businesses that are considering relocating. These witnesses commented that incentives such as the EDGE credit are helpful in attracting new businesses, but that they should be expanded to cover the retention of existing jobs and investment.

B. Property Tax Abatement

The Commission heard testimony concerning property tax abatement at three of its five meetings. Under Indiana's property tax abatement statutes, abatement can be authorized by counties and municipalities for investment in real property (over three, six, or ten years) or new manufacturing equipment (over five or ten years). The abatement allows a percentage of the increases in assessed valuation to be deducted for purposes of property taxation.

A number of representatives of county and municipal government, as well as economic development professionals, testified that property tax abatement is a useful economic development tool that is needed by local government to attract investment and encourage job creation. The Committee heard testimony stating that local control over the property tax abatement programs should not be reduced, and that abatements generally are working as intended.

The Committee's staff provided a summary of the statewide fiscal impact of property tax abatement, showing that abatement deductions for $1.012 of assessed valuation were granted for property taxes payable in 1998.

The Committee also heard testimony from a wide range of witnesses requesting that property tax abatement be expanded to allow local government to authorize abatements for new research and development equipment. Under current law, only manufacturing equipment is eligible for abatement. Numerous witnesses suggested that this limitation should be eliminated in order to encourage the growth of companies that perform research and development activities and generally provide relatively high-paying jobs.

C. Tax Increment Financing / Redevelopment Commissions

The Commission took testimony concerning tax increment financing and redevelopment commissions at two of its meetings. Under Indiana's tax increment financing provisions, local redevelopment commissions may after a public hearing process establish "allocation areas" if certain conditions are met. Any property taxes attributable to increases in assessed valuation in these allocation areas are then used to finance infrastructure for local economic development projects.

According to testimony, tax increment financing allocation areas have been established in 46 counties. The Committee's staff provided a summary of the statewide fiscal impact of tax increment financing, showing that for property taxes payable in 1998 over $107,785,000 was allocated to economic development purposes from tax increment financing areas.

As was the case with testimony concerning property tax abatements, representatives of local government and citizens concerned with economic development testified that tax increment financing is a tool that is necessary for local government to finance economic development efforts. Witnesses testified that it is one of the few economic development programs controlled by local government, and they requested that this local control not be reduced. The Committee heard testimony describing how tax increment financing is often a particularly important economic development approach in those small communities with relatively slow growth in their property tax bases.

According to testimony heard by the Committee, some studies have concluded that when tax increment financing is used, property values also tend to increase outside of tax increment financing areas. However, witnesses also testified that research has concluded that in some jurisdictions there may be a mismatch between burdens and benefits from tax increment financing.

D. Enterprise Zone Issues

Generally

The Committee heard testimony that:

> (1) there are currently 21 enterprise zones in Indiana, mostly in larger urban areas;
> (2) these zones attempt to use tax incentives to counter disincentives to investment in urban areas, such as older infrastructure and a lack of transportation for urban workers; and
> (3) if a business is benefitted by claiming an enterprise zone tax incentive, it is required to re-invest these savings in the zone.

According to information supplied by the Indiana Department of Commerce, the enterprise zone statutes offer the following types of incentives: inventory tax credits; gross income tax exemptions for increases in receipts from enterprise zone operations; investment cost credits against state income tax for individuals purchasing an ownership interest in a zone business; loan interest credits against state tax; employment expense credits based on qualified wages paid to employees; and tax deductions for employees. According to the Department:

> (1) there are approximately 110,200 residents and 1,665 business in the 21 enterprise zones;
> (2) total tax savings by businesses through the zone incentives described above for calendar year 1997 (reported in 1998) were $40,223,979; and
> (3) total zone reinvestment by businesses for calendar year 1997 (reported in 1998) was $665,498,330.

The Director of Economic Development for the City of Ft. Wayne testified before the

Committee concerning Ft. Wayne's experience with enterprise zones. This witness stated that much of the increase in the enterprise zone's personal property assessed valuation would not have occurred without the incentives offered by the zone. The Committee also heard testimony attributing the success of the enterprise zone program to a strong national economy, training programs offered in the zone, and investment in physical improvements to zone neighborhoods.

The Counsel for the Indiana Department of Commerce also testified before the Committee concerning enterprise zones, noting that the enterprise zone program has made strong accomplishments since its inception, but that the economy has changed since the creation of the program. This witness stated that many enterprise zone successes have come from creative programs, such as job training or day-care programs, that are funded by the urban enterprise associations. This testimony also suggested that it may be better to modify the enterprise zone program instead of layering a new program on top of the existing enterprise zones.

Consequences of the Recently Enacted Personal Property Tax Credit

During the 1999 Session, the General Assembly enacted a "personal property tax reduction credit," which provides a credit equal to the property tax liability that would be paid on the taxpayer's personal property with an assessed value equal to the lesser of: (a) the assessed value of the person's personal property; or (b) $12,500.

A number of witnesses testified that while this credit will be helpful to taxpayers, it will also have the effect of making enterprise zones (which offer an inventory tax credit) relatively less attractive to business. A witness representing the Indiana Enterprise Zone Association predicted that this tax reduction might reduce participation in the enterprise zone program by up to 50%.

Possible Modifications to Enterprise Zones

Witnesses explained that the enterprise zone legislation was enacted in the 1980s, and that it was designed to assist manufacturing business. A number of witnesses suggested that it would be worthwhile to consider redesigning the enterprise zone tax incentives to fit better with the current economy.

Senator David Long testified before the Committee concerning a proposal to modify the enterprise zone program. He described a number of factors that limit the effectiveness of enterprise zones, such as: (1) size limits and contiguity requirements; (2) a lack of flexibility; (3) the fact that the tax incentives have focused on inventory taxes.

Senator Long also described to the Committee the provisions of a bill concerning "renaissance zones" (modeled on the program in Michigan) that he and Senator Cleo Washington had previously introduced:

> (1) the bill would have allowed up to eleven renaissance zones, two of which could be abandoned military bases;
> (2) the zones could be up to 3,000 acres in size;
> (3) the zones would have a maximum life of fifteen years;
> (4) each zone could have up to six "sub-zones," which would have to be

contiguous;
(5) the tax benefits would be available for families and individuals, as well as for business; and
(6) all property taxes and income taxes would be abated, with the abatement phasing out over fifteen years.

Senator Long testified that it is an appropriate time to revamp the enterprise zone program, because: (1) the recently enacted inventory tax credit has made the existing tax incentives behind enterprise zones relatively less important; and (2) changes to enterprise zones that would encourage investment in urban areas, rather than suburban areas, would assist in achieving "smart growth."

Enterprise Zone Loan Interest Credit

The Committee also heard testimony that a recent Indiana Tax Court ruling concerning the enterprise zone loan interest credit would now allow banks to claim the loan interest credit without re-investing in an enterprise zone. These witnesses testified that this would defeat the purpose of the enterprise zone program, and that this had not been the intent of the General Assembly. These witnesses suggested a technical correction to the loan interest credit statute.

E. Rural Economic Development

The Committee heard testimony from the Executive Director of the Indiana Rural Development Council concerning economic development issues affecting rural areas.

The testimony described a number of facts concerning rural areas in Indiana:

(1) 64 of Indiana's 92 counties are rural;
(2) nationally, there is a growth in population in rural areas;
(3) only 6.3% of the rural population live on farms;
(4) approximately 90% of rural workers have non-farm jobs; and
(5) the rural population that is younger than age 65 is growing faster than the rural population that is age 65 or older.

In addition, the following problems were listed as the greatest barriers to rural economic development:

(1) lack of money for planning;
(2) infrastructure needs (especially wastewater, water, and transportation);
(3) telecommunications needs (including the need to keep rural communities from being left behind as the economy shifts toward high-tech, research, or service jobs);
(4) lack of housing;
(5) need for additional workforce training; and
(6) land use issues

The Committee also discussed the issue of whether it would be helpful if Indiana were to develop a more formal and comprehensive strategy for rural economic development.

F. Loss of Indiana College Graduates to Other States

The Committee heard testimony from the President of the Indiana Fiscal Policy Institute concerning the Indiana Human Capital Retention Project. According to this testimony:

> (1) Indiana ranks 49th among all states in the percentage of residents 25 years of age and older who have attained at least a bachelor's degree;
> (2) the job categories of "Professional and Specialty Occupations" and "Executive, Administrative, and Managerial Occupations" have accounted for approximately 75% of the net job growth nationwide since 1989, and these jobs pay approximately 60% above the average wage; Indiana has ranked last among all states in the percentage of persons employed in these job categories;
> (3) Indiana is, however, ranked first nationally in manufacturing employment;
> (4) Indiana is a significant exporter of graduates with postsecondary degrees; over time, approximately one-third of Indiana college graduates leave the state (and approximately 90% of non-residents who come to Indiana for a college education leave after graduation); and
> (5) surveys show that Indiana's graduates leave the state for employment-related reasons.

The Committee also heard testimony that Indiana is losing its graduates with the highest levels of technical educational attainment, especially its graduates with engineering, mathematics, and other science degrees.

G. Indiana Research Expense Tax Credit

Witnesses testifying before the Committee explained that although Indiana was one of the first states to enact a research and development tax credit, the current credit is scheduled to expire December 31, 1999. The expiring Indiana research expense credit provides a credit for increased research and development expenses (above a base period amount) equal to the lesser of: (a) a company's total research and development expenditures in Indiana; or (b) the company's nationwide research and development expenditures, multiplied by its Indiana income tax "apportionment" factor.

The Committee heard testimony describing the increasing competition among states to attract high-tech companies and the accompanying high-paying jobs, and noting that other states, such as Colorado, Texas, and Michigan, have passed or proposed increased state tax incentives for research and development activities and equipment. Witnesses also testified that the renewal of the credit would help attract and retain high-tech, high-growth companies.

The Committee also heard from witnesses who support repealing the "apportionment limitation" provision in the credit. Witnesses testified that for Indiana companies with most of their sales outside the state, this limitation results in a credit that does not reflect all of their research and development spending in Indiana, and that it actually provides an incentive for some Indiana companies doing business nationwide to put the research and development portions of their business in another state.

According to information supplied by the Committee's staff, the estimated fiscal impact of renewing the Indiana research expense credit is approximately $10 million to $15 million annually, and the estimated fiscal impact of eliminating the "apportionment limit" on the Indiana research expense credit is approximately $5.2 million annually.

H. Capital Formation

A number of witnesses appearing before the Committee testified concerning the negative effects on economic development that arise from the lack of capital available to Indiana businesses. They stated that this lack of capital has a negative effect on Indiana's ability to create jobs, especially high-paying jobs, and that it indirectly contributes to the out-migration of Indiana's college graduates.

A partner with an Indianapolis financial advisory firm described the various types of business capital and noted that there is very little seed capital in Indiana, especially for new high-tech firms. According to this testimony, such capital often flows to the east or west coasts, with less available for new firms in the Midwest. The Committee also heard examples of Indiana high-tech firms being enticed to move to New York or Massachusetts to be closer to venture capital investors. This witness also testified that government could assist in the capital formation process by authorizing capital investment companies (or "CAPCOs"), and providing tax credits for companies that invest in venture capital firms.

The Chairman of the First Internet Bank of Indiana testified concerning Indiana's entrepreneurial climate and capital formation issues. He stated that in the 1980s it was very difficult for non-manufacturing firms in Indiana to attract start-up capital, and that there still seems to be less assistance for small start-ups that are not manufacturing firms. This witness commented that the overall economic climate in Indiana is good, other than the lack of access to capital, and that some of the capital needed to start the First Internet Bank could not be raised in Indiana.

The President of the Indiana Economic Development Council suggested providing some type of state incentives for local investment pools that take equity in small start-up companies.

I. Twenty-First Century Research and Technology Fund

The Committee also heard testimony concerning the Twenty-First Century Research and Technology Fund, which was established during the 1999 Session of the General Assembly. Numerous witnesses described this Fund as a very important first step toward encouraging the growth of high-tech jobs in Indiana.

According to this testimony, the Fund was created to provide grants or loans to support proposals for economic development in the following areas:

> (1) to increase the capacity of Indiana institutions of higher education, Indiana businesses, and Indiana nonprofit corporations and organizations to compete successfully for federal or private research and development funding;
> (2) to stimulate the transfer of research and technology into marketable products;
> (3) to assist with diversifying Indiana's economy by focusing investment in

biomedical research and biotechnology, information technology, and other high technology industry clusters requiring high-skill, high-wage employees; and
(4) to encourage an environment of innovation and cooperation among universities and businesses to promote research activity.

According to the testimony:

(1) studies had shown that Indiana was losing many of its college graduates and that Indiana's universities were losing out in the competition for federal research grant money because of the relatively small amount of state matching funds;
(2) the statutes authorizing the Fund require it to give priority to applications for grants or loans that have the greatest economic development potential and require the lowest ratio of money from the Fund compared with the combined financial commitments of the applicant and those cooperating on the project; and
(3) the board overseeing the Fund will give priority to those universities that form partnerships with other universities or private sector firms.

The Committee also heard testimony that the Twenty-First Century Research and Technology Fund Board is currently seeking letters of intent from those who are planning to apply for funding from the Fund, and that these letters of intent will give the Board an idea of what types of applications it will eventually receive. In addition, the Committee was told that the application process will continue until November 1, 1999, and then peer review of the proposed projects would begin (including federal peer review, if required).

J. Infrastructure Issues

The Chairman of the Build Indiana Council, an organization representing Indiana companies in the construction industry, testified before the Committee concerning the importance of Indiana's roads and highways to the state's continued economic development. This testimony also noted that firms consider a state's transportation system when looking at costs of doing business and making decisions concerning business location. The Committee heard testimony from this witness that:

(1) almost $179 billion worth of goods are delivered annually from Indiana sites;
(2) approximately 77% of the total value of goods shipped from Indiana are shipped by truck;
(3) since 1970, there has been a 540% increase in the loads carried on Indiana highways;
(4) given the importance of roads to economic development, it is necessary for the state to plan for the long-term maintenance and development of the highway system; Indiana's highway construction program is at an all-time high, but funding highway construction and maintenance from the state's budget surplus is not a long-term solution; and
(5) both new infrastructure projects and preventive maintenance are necessary to support economic development.

Other witnesses appearing before the Committee noted that infrastructure, such as roads, highways, bridges, sewers, and wastewater treatment facilities, is a prerequisite for economic development, and that in many areas of the state, especially rural areas, inadequate infrastructure may be the greatest impediment to economic growth.

The Committee also received testimony that the percentage of federal gasoline tax revenue returned to Indiana has increased under the recent federal Transportation Equity Act for the 21st Century (TEA-21).

K. Insurance Issues

The Committee heard testimony from a representative of the insurance industry concerning: (1) the significant economic impact of the insurance industry in Indiana; and (2) the need to lower the state's premiums tax in order to allow Indiana's insurance companies to remain competitive with insurance companies based in other states.

According to this testimony: (1) Indiana insurance companies employ over 62,000 persons and pay over $2.6 billion in direct wages and indirect income each year; (2) Indiana's insurance premium tax rate is 2%, and by 2003 this will be higher than the highest premium tax rate of any surrounding state (Michigan's effective tax rate is 1.3%; Ohio's effective tax rate will be 1.4%; Illinois' effective tax rate is 1.5%; and Kentucky's effective tax rate will be 1.5%); and (3) because of the relatively higher Indiana tax, the fact that insurance companies are subject to retaliatory taxes means that an Indiana insurance company doing business in other, lower-tax, states must still pay a tax based on the Indiana rate. Indiana insurance companies therefore face a competitive disadvantage when doing business in other states.

The testimony included a suggestion that the premiums tax rate be decreased from 2% to 1.3% over a five year period. The Committee heard testimony that such a rate reduction will make Indiana's insurance companies competitive and help retain those companies in the state.

L. Turning University Research into Marketable Products and Jobs

At its second meeting, the Committee toured the Purdue Research Park and heard testimony from university officials and entrepreneurs concerning the need to focus on turning research at Indiana's universities into marketable products. The Dean of the Purdue University School of Technology gave the Committee a brief overview of economic development efforts being conducted by Purdue University and the Purdue Research Foundation. He explained that Purdue University was focusing on the following economic development activities:

(1) human capital development;
(2) innovation and research;
(3) commercialization of products;
(4) technology transfer;
(5) job creation; and
(6) access to financing.

The witness briefly outlined the structure, mission, and accomplishments of the Purdue Economic Development Council, and discussed efforts of Purdue's Technical

Assistance Program ("TAP"). He testified that the goal of the Purdue Research Park is to assist in the development of technology-based businesses in partnership with Purdue University, and that the Park currently has over 80 companies that have created more than 2,500 high-tech jobs.

The Director of the Purdue Technical Assistance Program listed the following state investment needs:

(1) targeted research leveraging, which will be aided by the newly established Twenty-First Century Research and Technology Fund;
(2) spreading regional technology centers throughout Indiana;
(3) expanding the Technical Assistance Program statewide to ten centers;
(4) job development and job placement services for high-wage, high-skill jobs; and
(5) improving the overall business environment.

A representative of the Purdue Research Foundation testified that in 1980 there were only 12 business incubators in the United States, but that this number has grown to between 600 and 700. He explained that the Purdue Research Park consists of the Business and Technology Center, the Purdue Technology Center (opened May 1999), and the partnership between Purdue University and the Innovation Center (scheduled to open November 1999). The witness stated that a goal of the Purdue Research Park was to provide a mechanism by which research could flow through to a commercial product.

The dean of Purdue University's School of Agriculture also testified concerning the global challenges and opportunities facing agriculture and food science, and how these issues affect Indiana's economic growth.

M. Gaming Issues

At its fourth meeting, the Committee heard testimony on issues related to the economic, fiscal, and social consequences of gaming. Much of the testimony focused on the possible effects that changes and potential changes to gaming laws in nearby states might have on Indiana's gaming industry and the employment, investment, and tax revenue related to gaming. The Committee also heard from witnesses who believe that gaming in Indiana has a significant negative impact on the state.

<u>Changes and Proposed Changes in Other States</u>

The Committee heard testimony and staff discussion of the following changes and proposed changes to riverboat and casino gaming in nearby states:

Illinois
(1) amendments to the Illinois gaming law in June have eliminated cruising requirements for the state's nine riverboats;
(2) Illinois gaming revenue for July (the first full month of dockside gaming) increased 35% over July 1998;
(3) the 1999 legislation allows for the transfer of a dormant gaming license to

Rosemont, near Chicago's O'Hare Airport; the 1999 legislation also reduced taxes on horse racing and provided for the transfer of certain casino revenues to increase purses at racetracks; it has been reported that these changes will lead to the re-opening of Arlington International Raceway (northwest of Chicago); and (4) Governor Ryan has proposed discussions concerning a midwestern "regional interstate compact" to ensure a uniform approach to gaming activities in the region.

Michigan
(1) three casinos have been approved for Detroit; one has already opened, and the other two are expected to be open by November 1999;
(2) there is a possibility of expanded Native American gaming in Michigan; and
(3) there have been proposals to allow slot machines at the state's racetracks.

Kentucky
(1) Governor Patton has said that he may support 12 to 14 state-owned casinos at "key entry points in Kentucky;"
(2) proposals have also been made to allow video slot machines and casino gaming at racetracks; and
(3) the state has commissioned a study examining the social and economic impact of expanding gambling in Kentucky; the study will review three scenarios: (a) 12 to 14 land-based casinos; (b) video slot machines at racetracks; and (c) quick-draw keno in bars.

Missouri
(1) In September, the Missouri Gaming Commission voted to eliminate cruising requirements for all of Missouri's riverboats; and
(2) during a one-month experiment with open boarding for a riverboat in St. Louis, attendance increased by 45% and revenues increased 10% compared to the same period in 1998.

Iowa
The Iowa state legislature approved a bill in 1998 to impose a moratorium on casino expansion, but the bill was vetoed by Governor Branstad

<u>Fiscal and Economic Consequences of Gaming</u>

The Committee heard testimony from the Executive Director of the Indiana Gaming Commission concerning the fiscal, employment, and capital investment impacts that the gaming industry has had in Indiana. This witness testified that the project development costs paid by casinos in Indiana have totaled more than $1.4 billion for the state's nine casinos, without considering any indirect "ripple" effects from this spending, and that as of December 31, 1998, casinos employ over 12,500 employees in Indiana.

The Executive Director of the Indiana Gaming Commission provided the Committee with the following information concerning tax revenue:

(1) in August of this year over $9.8 million dollars in admissions taxes have been collected and over $26.3 million in wagering taxes have been collected, for total tax collections that exceed $36.2 million;

(2) for the year to date, over $76.8 million in admissions taxes have been collected and over $207.5 million in wagering taxes have been collected, for total tax collections that exceed $284.4 million; and
(3) since the commencement of casino gaming, over $283.1 million in admissions taxes have been collected and over $744 million in wagering taxes have been collected, for total tax collections that exceed $1.027 billion (not including property taxes, sales taxes, or income taxes paid by casinos or their employees).

This witness also provided the Committee with an explanation of the manner in which the admissions tax revenue is divided between counties, cities, county convention and visitor bureaus, the State Fair Commission, the Division of Mental Health, and the Indiana Horse Racing Commission. He explained that 75% of the casino wagering tax revenue is distributed to the Build Indiana Fund (over $588 million since the commencement of gaming) and that the remaining 25% of the revenue is distributed to the home dock site. He also noted that each casino has negotiated an agreement with its home city or county that provides additional revenues to that city or county.

A representative of the Casino Association of Indiana also provided information concerning the economic impacts of gaming in Indiana. This witness explained that Indiana's gaming law had been passed in 1993 in response to serious economic problems facing certain parts of northwestern Indiana and the areas along the Ohio River, and that traditional economic development programs had failed to address the problems of high unemployment, lack of capital investment, few high-paying jobs, and decaying infrastructure in these regions.

He described the tax structure imposed on the gaming industry, noting that in addition to the usual property, sales, and income taxes that all businesses pay, riverboats pay two other taxes: (1) a wagering tax, which is equal to 20% of adjusted gross receipts ("AGR"); and (2) an admissions tax equal to $3 per person per cruise. This witness also explained that the wagering tax receipts are divided between the State (75%) and the host city (25%), and that the $3 admissions tax is divided between the host city ($1), the host county ($1), and the State ($0.65 for the Indiana Horse Racing Commission; $0.15 to the Indiana State Fair Commission; $0.10 to the Indiana Division of Mental Health; and $0.10 to the host area's convention and visitors bureaus).

He testified that in 1996 approximately five million people had visited Indiana's riverboats, and that this number has grown to over 17 million by 1998. This witness further testified that:

(1) the wagering tax revenues were $74.5 million in 1996; $192.5 million in 1997; $268.1 million in 1998, and $207.6 million for January to August of 1999; with total collections of more than $742 million; and
(2) the admissions tax revenues were $29 million in 1996, $74.3 million in 1997, $102.4 million in 1998, and $76.8 million for January to August of 1999; with total collections of more than $282 million.

The witness also stated that:

(1) gaming companies have made private capital investments of more than $1.3

billion, and that this investment has been made without any tax abatements, tax increment financing incentives, EDGE credits, job training money, or state or local money for infrastructure improvements; and
(2) almost every host city has negotiated a "development agreement" with a riverboat, in which the riverboats have committed to pay between 2% and 14% of their adjusted gross receipts to the host community on an annual basis (in addition to all other taxes paid).

He then provided to the Committee the following information concerning casino employment:

(1) casinos directly employ over 13,000 persons;
(2) these jobs typically offer training and promotion opportunities;
(3) the average annual salary is approximately $24,000;
(4) most benefit packages include such things as health, dental, and life insurance; profit sharing; and vacation, sick, and holiday pay;
(5) the annual wages and benefits exceed $300 million;
(6) 75% of the employees are Indiana residents;
(7) 31% of the employees are minorities (57% in Lake County); and
(8) more than half of the employees are women.

He also described the distribution of wagering and admissions taxes collected from 1996 through 1999, and explained that the gaming tax revenue distributed to the Build Indiana Fund is used to pay for reductions in the auto excise tax and for capital projects. This witness also described Indiana's riverboat cruising schedule, and commented that limiting the boarding times for patrons is an inconvenience to them.

The Mayor of the City of Gary testified before the Committee, contrasting Gary's economic condition before the commencement of gaming with its condition after gaming had begun. He stated that before the advent of gaming: (1) there was an outward migration of retail business and residents; (2) income, investment, and the number of job opportunities were declining; and (3) the City was unable to adequately fund infrastructure, equipment, and public safety. The witness commented that gaming has brought new jobs to Gary and has provided the City with additional resources for its public safety functions. He testified that during the past three years the size of the police department has increased 50%, the pay of police officers has increased 31%, and the number of homicides has decreased by 40%. He stated that riverboats have in a short time "jump-started" the local economy and promoted additional private investment.

The Committee also heard testimony from a Rising Sun resident who stated that he is interested in economic development and gaming issues. He described a number of improvements that he said were made possible through gaming revenue: (1) downtown renewal projects; (2) a new park; (3) the upgrading of road systems; (4) a new medical center with a full-time physician; (5) a new city hall; (6) bridge and sidewalk improvements; and (7) improvements to public safety equipment.

This witness stated that the most significant impacts to Rising Sun have come from the negotiated revenue-sharing agreement it had entered into with the local casino, and he noted that four community foundations have been established to leverage the gaming revenue. According to the witness, these foundations have spent money on things such as river erosion projects, a tanker truck for the fire department, and a senior citizens housing complex.

Potential Impact from Gaming Changes in Other States

The Executive Director of the Indiana Gaming Commission provided the Committee with the following information concerning recent changes to the adjusted gross receipts ("AGR") reported by Indiana and Illinois casinos. This information showed that from June 1999 to July 1999, Indiana's total AGR increased (with every casino showing an increase), but that from July 1999 to August 1999, Indiana's total AGR decreased (with every casino except one showing a decrease). Illinois' total AGR increased from June 1999 to July 1999, but declined from July 1999 to August 1999.

The Executive Director also provided information comparing AGR figures from months in 1998 with corresponding months in 1999. This testimony showed that compared to July 1998, Indiana's July 1999 AGR had increased (with some casinos showing an increase and some showing a decrease), and that compared to August 1998, Indiana's August 1999 AGR had also slightly increased. Compared to July 1998, Illinois' July 1999 AGR had increased, and compared to August 1998, Illinois' August 1999 AGR had increased as well.

This witness testified that it was difficult to say with certainty if the decline in Indiana AGR from July to August of this year was due to dockside gaming in Illinois, and he pointed out that Illinois AGR in that period also fell. He did note that the Casino Aztar seemed to be showing the biggest effect, and that this might because it was in a smaller market and there was an Illinois casino (now with dockside gaming) only 90 miles away.

The Executive Director also distributed information concerning admissions figures reported by Indiana and Illinois casinos. This information showed that from June 1999 to July 1999, Indiana admissions increased (with every casino showing an increase), but from July 1999 to August 1999, Indiana admissions decreased (with every casino showing a decrease). From June 1999 to July 1999, Illinois admissions increased (with every casino showing an increase), but from July 1999 to August 1999, Illinois admissions decreased (with every casino except one showing a decrease).

He also provided Committee members with information comparing admissions figures from months in 1998 with corresponding months in 1999. Compared to July 1998, Indiana's July 1999 admissions had increased slightly, but compared to August 1998, Indiana's August 1999 admissions had decreased. Compared to July 1998, Illinois' July 1999 admissions had increased (with all casinos showing an increase of at least 30%), and compared to August 1998, Illinois' August 1999 admissions had increased (with all casinos showing an increase of at least 29%).

The Executive Director also testified that if dockside gaming is authorized in Indiana, the structure of the admissions tax would probably need to be revamped, because the current tax is levied on a per patron, per cruise basis; if cruises were eliminated, basing the tax on a "per turnstile" basis would lead to a significant drop in admissions tax revenue.

The Committee also heard testimony from the Director of Hospitality Research for PriceWaterhouseCoopers. This testimony explained the preliminary results of a study being prepared for the Casino Association of Indiana that is attempting to estimate the impact that recent and proposed changes in border states' gaming legislation would have on Indiana's economy.

This witness noted that in order to estimate future impacts, he first had to choose a baseline against which to measure any changes, and that for purposes of the report the baseline involved estimates of the Indiana gaming market under the regional gaming conditions that existed on January 1, 1999. He then described three alternative scenarios for which he had prepared impact estimates:

> (1) Alternative 1: estimates of the Indiana gaming market with dockside gaming in Illinois, the expansion of Native American gaming in Michigan, and the development of casinos in Detroit.
> (2) Alternative 2: estimates of the Indiana gaming market with the development of land-based casinos in Kentucky.
> (3) Alternative 3: a combination of alternatives 1 and 2.

This witness testified that under the baseline scenario (conditions as they existed on January 1, 1999), he estimated that:

> (1) gross Indiana casino revenues would increase from $1.7 billion in 1999 to $2.2 billion in 2005, an average annual increase of 4.7%;
> (2) the growth in casino revenue would lead to employment growth among casinos, with direct casino jobs increasing from 13,159 in 1999 to 17,245 in 2005, an average annual increase of 4.6%;
> (3) the growth in casino revenue and admissions would lead to an increase in gaming and admissions taxes from $428 million in 1999 to $547 million in 2005, an average annual increase of 4.2%;
> (4) the total direct and indirect employment impact of gaming would increase from 25,137 jobs in 1999 to 31,212 jobs in 2005, an average annual increase of 2.8%; and
> (5) as a result of the direct and indirect employment gains created by casino gaming, direct and indirect wages and salaries would increase from $575 million in 1999 to $704 million in 2005, an average annual increase of 2.5%.

This witness provided the following estimates of the impacts that would occur under Alternative 1 (dockside gaming in Illinois; expansion of Native American gaming in Michigan; the development of casinos in Detroit):

> (1) as a result of expanded gaming in Illinois and Michigan, patrons will shift to casinos in those states, and by 2005 Indiana casinos will experience a $448 million loss (20%) compared to the baseline projections;
> (2) by 2005, the expenditures for goods and services in the Indiana economy will fall by $744 million (21%) compared to the baseline projections;
> (3) by 2005, gaming employment will be fall by 6,594 (21%) compared to the

baseline projections;
(4) by 2005, direct and indirect wages and salaries will fall by $154 million (22%), compared to the baseline projections;
(5) the contraction in employment and income that will result from increased gaming competition will result in the loss of state and local revenues (both direct gaming taxes and other taxes); by 2005, state and local tax collections will be $103 million (16%) lower, compared to the baseline projections, because of reduced gaming activity in Indiana; and
(6) the impacts of dockside gaming in Illinois and increased casino gaming in Michigan will be concentrated in northwestern Indiana; compared to the baseline projections, the estimated impact of these changes on northwestern Indiana is: a 39.2% decline in gross casino revenues; a 38.9% decline in total expenditures, in total employment, and total wages and salaries; and a 29.9% decline in total tax revenues.

The following estimates of the impacts that would occur under Alternative 2 (the development of land-based casinos along the Indiana - Kentucky border) were given to the Committee:

(1) the southern Indiana casinos would experience a significant decline in gross casino revenues; by 2005, Indiana casinos will experience a $224 million loss (10%) compared to the baseline projections;
(2) by 2005, the expenditures for goods and services in the Indiana economy will fall by $331 million (9.5%) compared to the baseline projections;
(3) by 2005, gaming employment will fall by 3,053 (9.8%) compared to the baseline projections;
(4) by 2005, direct and indirect wages and salaries will fall by $64 million (9.1%), compared to the baseline projections;
(5) by 2005, state and local tax collections will be $56 million (8.8%) lower, compared to the baseline projections, because of reduced gaming activity in Indiana; and
(6) the impacts of the development of land-based casinos in Kentucky will be concentrated in southern Indiana; compared to the baseline projections, the estimated impact of these changes on southern Indiana is: a 19.1% decline in gross casino revenues; a 19.2% decline in total expenditures; a 19.5% decline in total employment; a 19.2% decline in total wages and salaries; and a 17.5% decline in total tax revenues.

According to this witness, the combined impact of changes in Illinois, Michigan, and Kentucky (Alternatives 1 and 2 combined) would result in an approximately 30% reduction in gaming activity and its economic impact in the state. Compared to the baseline projections, the estimated impact of these changes would be: a 30.2% decline in gross casino revenues; a 30.7% decline in total expenditures; a 30.9% decline in total employment; a 31.0% decline in total wages and salaries; and a 23.2% decline in total tax revenues. He explained that this would be a loss of approximately $700 million per year in gross gaming revenue and a loss of almost 10,000 jobs (compared to the baseline). The witness also noted that northwestern Indiana would not only suffer losses compared to the estimated baseline, but would experience an absolute decline as well.

Social Consequences of Gaming

The Committee also heard testimony from the State Coordinator of the Indiana Coalition against Legalized Gambling concerning the harmful social consequences of gaming. This witness stated that the push for dockside gambling is another attempt to expand legalized gambling in Indiana, and that the gambling industry hopes to establish Las Vegas-style gambling in the midwest. According to this witness, the gambling industry attempts to play states off against each other in order to increase the industry's profits.

He stated that in the past Governor O'Bannon has opposed any further expansion of gambling in Indiana, and he commented that the citizens of Indiana should have the opportunity to vote in a statewide referendum on the issue of gambling expansion. He further testified that he believes the expansion of gambling in Indiana will increase the social costs of gambling in Indiana, and he described studies showing the link between gambling addiction and bankruptcy. He also described an academic study which found that counties with casinos have a crime rate 8% higher than counties without casinos.

The witness also testified that under the federal Indian Gaming Regulatory Act, tribes are given the right to establish gambling comparable to that allowed under state law, and that authorizing dockside gaming would give leverage to those tribes that wish to begin gambling operations in Indiana. He concluded his testimony by reiterating his opposition to dockside gambling and encouraging careful study of the national and state gambling reports and thorough consideration of the social consequences of gambling.

The Legal Chairman of the Southern Indiana Citizens Against Legalized Gambling also testified before the Committee concerning the negative social consequences of gaming. He stated that the goal of the gaming industry is to have land-based casinos, with the objective of taking as much money from people as possible. He also testified that the law provides that the regulation of gaming should benefit all citizens of Indiana, not just particular communities.

This witness described the introduction of gambling into Iowa and the "copycat" expansion into a number of midwestern states. He noted that casinos had been described to the public as destination resorts, and that if this were truly the case the patrons would not mind waiting an hour or so if they arrived between riverboat boarding periods.

He stated that he is a plaintiff in a lawsuit challenging the constitutionality of the 1993 law authorizing gaming in Indiana. He further testified that the recent push toward dockside gaming in Indiana would just make gaming more accessible, which would lead to increased social problems.

The witness also described to the Committee the following recommendations that had been adopted by the National Gambling Impact Study Commission:

> (1) jurisdictions considering the expansion of gambling should sponsor comprehensive gambling impact statements;
> (2) convenience gambling (such as electronic devices in neighborhood outlets)

has fewer benefits and more social costs than other forms of gambling; states should not authorize such forms of gambling, and should cease or roll back existing operations;
(3) the dangers and risks of gambling should be posted; and
(4) ATMs and other devices using credit card or debit cards should be banned from the area where gambling takes place.

He stated that Indiana's 1993 gaming law was enacted without a study analyzing the costs of gaming, and he noted that Professor David Ruder, a former head of the Securities and Exchange Commission, had suggested the disclosure protection laws in the securities industry as an appropriate model for the gaming industry.

Maritime Employees

A representative of the Seafarers International Union testified before the Commission in opposition to dockside gaming in Indiana. This witness stated that trained maritime professionals are necessary for the safety of riverboats and their passengers, and that if dockside gaming were allowed these positions would be eliminated by the companies operating the riverboats. He predicted that regular riverboat employees would be assigned to the safety functions currently performed by maritime professionals, but that these regular employees do not have the proper training or experience. The witness also stated that if the maritime employee positions were eliminated from riverboats, firefighting and rescue responsibilities will have to be turned over to local fire departments.

The witness commented that if the maritime positions were eliminated, regular Coast Guard inspections would be replaced by sporadic private inspections. He predicted that if dockside gaming were authorized, close to 800 maritime positions would be eliminated.

He described maritime jobs as career jobs that provide opportunities for advancement and pay increases, and he explained that the maritime employees must acquire "sea time" from cruises to meet Coast Guard requirements and advance in their careers. He requested that the Committee ensure these jobs are protected in some manner if dockside gaming were allowed. The witness stated that the issue involved the safety of passengers and vessels, as well as the protection of career jobs in areas in need of employment.

A representative of the Organization of Casino Mariners also testified before the Commission in opposition to dockside gaming. This witness stated that there currently are more than 700 professionally educated and trained casino mariners employed in Indiana, and he stated that these employees are responsible for the safety of riverboats and their passengers. He testified that all of these employees are subject to federal competency requirements, Coast Guard inspection, and rigorous training requirements, and that casino mariners in Indiana have had an admirable safety record. He also testified that there would be a potentially devastating impact on patron safety if maritime employees were removed from riverboats. He suggested that in any proposed legislation concerning dockside gaming: (1) there should be a requirement that Coast Guard inspection and certification must be maintained; and (2) each riverboat should be required to undertake a minimum number of actual cruises.

The Committee was also addressed by a resident of Gary who works as a deckhand on a riverboat. He stated that he had been involved in an incident in which he had administered first aid to a heart attack victim, and he commented that his professional training as a maritime employee had enabled him to administer the aid. He testified that he had been able to advance in his career in the marine industry, but that if cruising requirements were eliminated his advancement would stall, and he might be forced to leave Gary.

Horse Racing Issues

The General Manager of Hoosier Park testified before the Committee, explaining that the horse racing industry supports the gaming industry's request for dockside gaming, as long as the legislation continues the relationship between gaming and the horse racing industry. He commented that the legalization of gaming in Indiana has been beneficial to both the gaming industry and to the horse racing industry.

This witness explained that $0.65 from each $3.00 riverboat admissions tax is distributed to the horse racing industry, with 70% going for purses and promotion and 30% going to tracks. According to the witness, this distribution to racing purses has greatly encouraged quality standardbred and thoroughbred breeding in Indiana, and any change to the distribution of this portion of the admissions tax could have a devastating effect on the industry. He also pointed out that the Illinois legislation that authorized dockside gaming also included similar distributions to that state's horse racing industry. The witness stated that Purdue University was undertaking a study to determine the size of the horse racing industry in Indiana, but that some persons have estimated it to be worth $200 million and growing.

Another witness testified that over the past three years, Hoosier Park had received $18.3 million in riverboat admissions tax revenue, but that under the rules of the Indiana Horse Racing Commission much of this was passed through to other parts of the horse racing industry.

The Committee also heard testimony that the link between gaming and the horse racing industry had developed from the idea behind the initial gaming legislation, which was to use gaming to assist areas such as Gary in their economic development efforts, without having a negative effect on the horse racing industry.

V. COMMITTEE FINDINGS AND RECOMMENDATIONS

Property Tax Abatement

The Committee made the following findings:

> (1) Abatement deductions for $1.012 billion of assessed valuation were granted for property taxes payable in 1998.
> (2) Counties and municipalities have found property tax abatement to be a useful and necessary local economic development tool.

The Committee made the following recommendations:

(1) Property tax abatement appears to have a positive impact on Indiana's economic development. Counties and municipalities should continue to have the authority to provide these incentives.
(2) Property tax abatement should be expanded to allow local government to authorize abatement for new research and development equipment. Under current law, the only equipment eligible for abatement is manufacturing equipment. This limitation should be eliminated in order to encourage the growth of companies that perform research and development activities and generally provide relatively high-paying jobs.

Tax Increment Financing \ Redevelopment Commissions

The Committee made the following findings:

(1) For property taxes payable in 1998, over $107,785,000 was allocated to economic development purposes from tax increment financing areas.
(2) Some studies have concluded that when tax increment financing is used, property values also tend to increase outside of tax increment financing areas. However, certain research has also concluded that in some jurisdictions there may be a mismatch between burdens and benefits from tax increment financing.
(3) Counties and municipalities have found tax increment financing to be a useful economic development tool as they search for ways in which to: (a) stay competitive with other jurisdictions in retaining or attracting jobs; and (b) expand services to new areas. This has been especially useful to small communities with slow growth in property assessed valuation.

The Committee made the following recommendations:

Tax increment financing and the work of redevelopment commissions appear to have a positive impact on Indiana's economic development. Counties and municipalities should continue to have the authority to provide these incentives. However, additional consideration and study should be given to the issue of whether in some cases the burdens of tax increment financing are not properly matched with its benefits.

Enterprise Zones

The Committee made the following findings:

(1) According to information from the Indiana Department of Commerce:
(A) there are approximately 110,200 residents and 1,665 business in the 21 enterprise zones;
(B) total tax savings by zone businesses for calendar year 1997 (reported in 1998) were $40,223,979; and
(C) total zone reinvestment by businesses for calendar year 1997 (reported in 1998) was $665,498,330.
(2) The recently enacted "personal property tax reduction credit" will make the inventory tax credit provided by enterprise zones relatively less valuable to businesses. This in turn may lead to a decrease in the community development funds available to urban enterprise associations and may affect the number of

persons employed by enterprise zone businesses.
(3) A recent Indiana Tax Court ruling concerning the enterprise zone loan interest credit will now allow banks to claim the loan interest credit without re-investing in an enterprise zone. This is contrary to the intent of the General Assembly in designing the enterprise zone program.

The Committee made the following recommendations:

(1) The economy has changed since the creation of the enterprise zone program. The General Assembly should give serious consideration to modifying the types of incentives available to enterprise zone businesses, employees, and residents. The Committee recommends specifically that the General Assembly address limitations to the enterprise zone program that result from size limits and contiguity requirements and the fact that the tax incentives have focused on inventory taxes.
(2) The General Assembly should continue to monitor the effects that Michigan's renaissance zones are having on investment and employment in that state's urban areas. These renaissance zones may provide a model for future changes to Indiana's enterprise zone program.
(3) A technical correction should be adopted by the General Assembly to ensure that taxpayers claiming the enterprise loan interest credit are required (like taxpayers claiming other enterprise zone incentives) to re-invest in the enterprise zone.

Rural Economic Development

The Committee made the following recommendations:

(1) In the adoption of the next biennial state budget, the General Assembly should give strong consideration to expanding the funding for rural economic development planning. The Committee believes that this would be an appropriate first step in helping rural communities overcome the barriers they face in job creation and investment.
(2) The Committee recommends that legislation should be adopted to provide for the presentation by the Indiana Rural Development Council of a formal and comprehensive rural economic development strategy to the General Assembly.
(3) The Committee also recommends that any long-term economic development plans to shift toward high-tech and high-pay jobs should consider the special needs of rural areas in creating those types of jobs.
(4) In the adoption of the next biennial state budget, the General Assembly should expand the program for specialists in community\economic development to rural and lesser-populated areas of the state to focus on working with local leadership and appropriate leaders on community and economic development issues.

Retention of Indiana's College Graduates

The Committee made the following findings:

(1) Since 1989, Indiana has ranked last among all states in the percentage of persons employed in the job categories that have accounted for a majority of the net job growth nationwide. Jobs in these categories pay approximately 60% above the average wage.
(2) Indiana is ranked first nationally in manufacturing employment.
(3) Indiana is a significant exporter of graduates with postsecondary degrees; over time, approximately one-third of Indiana college graduates leave the state (and approximately 90% of non-residents who come to Indiana for a college education leave after graduation);
(4) Some surveys show that Indiana's graduates leave the state for employment-related reasons.
(5) Some data shows that Indiana is losing its graduates with the highest levels of technical educational attainment.

The Committee made the following recommendations:

The Committee believes that in order to ensure continued long-term economic growth in Indiana, it is necessary to lower the rate of out-migration of Indiana's college graduates. However, no easy answer to this problem is apparent. Addressing this issue involves many of the other issues affecting Indiana's economic development, such as the need to create more jobs in high-growth industries and the need to expand the capital available to new Indiana businesses. The Committee recommends further study on the issue, with a particular focus on the possibility of providing state incentives to employers that hire recent Indiana graduates with technical degrees.

Research Expense Tax Credit

The Committee made the following findings:

(1) The existing Indiana research expense tax credit applies only to qualified research expenses incurred before January 1, 2000.
(2) There is increasing competition among states to attract high-tech companies and the accompanying high-paying jobs, and other states have passed or proposed increased state tax incentives for research and development activities and equipment.
(3) The expiring Indiana research expense credit provides a credit for increased research and development expenses (above a base period amount) equal to the lesser of: (a) a company's total research and development expenditures in Indiana; or (b) the company's nationwide research and development expenditures, multiplied by its Indiana income tax "apportionment" factor. When this second limit, the "apportionment limitation," is applied to Indiana companies that have most of their sales outside of Indiana but perform the majority of their research and development within the state, the credit will not account for all of the research and development performed within Indiana. In effect, the current structure of the credit gives certain Indiana companies an incentive to perform research and development activities in other states.
(4) The estimated fiscal impact of renewing the Indiana research expense credit is approximately $10 million to $15 million annually.
(5) The estimated fiscal impact of eliminating the "apportionment limit" on the Indiana research expense credit is approximately $5.2 million annually.

The Committee made the following recommendations:

(1) In order to continue to attract and retain the high-tech, high-growth companies that are necessary to supplement Indiana's traditional industrial base, the Indiana research expense credit should be renewed and should be made permanent.
(2) The "apportionment limit" of the Indiana research expense credit should be eliminated so that the amount of the credit will be based only on the research and development expenditures in Indiana.

Capital Formation

The Committee made the following findings:

Witnesses testifying before the Committee described a serious shortage of seed capital available for new Indiana businesses, especially for high-tech businesses. The Committee believes this lack of capital: (1) has a negative effect on Indiana's ability to create jobs, especially high-paying jobs; and (2) also indirectly contributes to the out-migration of Indiana's college graduates.

The Committee made the following recommendations:

Steps should be taken to increase the amount of capital available to new Indiana businesses. The Committee recommends that further study be given to the possibilities of:

(1) providing some type of incentive for the creation of local investment pools that take equity in small start-up companies; and
(2) permitting the formation of "certified capital companies" that invest in new Indiana businesses and providing tax credits to companies that invest in these "certified capital companies."

Infrastructure Issues

The Committee made the following recommendations:

Infrastructure, such as roads, highways, bridges, sewers, and waste-water treatment facilities, plays a vital role in economic development. In many areas of the state, especially rural areas, inadequate infrastructure may be the greatest impediment to economic growth. Although Indiana's highway construction program has increased to an all-time high, and the percentage of federal gasoline tax revenue returned to Indiana has increased under the recent federal Transportation Equity Act for the 21st Century (TEA-21), it is necessary to plan for the long-term funding of roads and highways to ensure that Indiana's transportation network does not hinder the state's employment and economic growth.

Insurance Premiums Tax

The Committee made the following findings:

(1) Indiana insurance companies employ over 62,000 persons and pay over $2.6 billion in direct wages and indirect income each year.
(2) Indiana's insurance premium tax rate is 2%, and by 2003 this will be higher than the highest premium tax rate of any surrounding state.
(3) Because of the relatively higher Indiana tax, the fact that insurance companies are subject to retaliatory taxes means that an Indiana insurance company doing business in lower-tax states must pay a tax based on the Indiana rate; Indiana insurance companies therefore face a competitive disadvantage when doing business in other states.
(4) The following are the effective insurance premiums tax rates imposed by surrounding states:
(a) Michigan 1.3%
(b) Illinois 1.5%
(c) Ohio 2.09% (phasing down to 1.4% by 2002)
(d) Kentucky 2.0% (phasing down to 1.5% by 2004)
(5) According to the current model used by the Legislative Services Agency, the estimated fiscal impact of lowering Indiana's insurance premiums tax from 2% to 1.3% over a five year period is $27.5 in 2005.

The Committee made the following recommendation:

Indiana's premiums tax rate should be decreased from 2% to 1.3% over a five year period. This will help to make Indiana's insurance companies competitive and will also help to retain those companies and their jobs in the state.

Turning University Research into Marketable Products and Jobs

The Committee made the following recommendations:

(1) The General Assembly should create and provide funding for a statewide economic partnership between Purdue University, the state, and other state universities to build upon current strengths for a statewide delivery of services for existing businesses and the development of new businesses and jobs. Purdue University has a model for new business development, technical assistance, and workforce development. The General Assembly should provide for a regionalization of this model through a statewide partnership based on the Purdue University programs.
(2) In the adoption of the next biennial state budget, the General Assembly should provide funding for the expansion of the Purdue Technical Assistance Program to 10 regional sites. This is one manner in which the state can facilitate the creation of marketable products and job growth from the resources and research of Indiana's universities. This effort will support the state's effort to assist existing businesses to be more productive and assist in the implementation of new technology and improved management practices.
(3) In the adoption of the next biennial state budget, the General Assembly should provide funding for the creation of regional technology centers. The Technology Center at Purdue University should serve as the leadership and service center for these regional technology centers. The General Assembly should create five regional technology centers each biennium, and should fund the start-up costs of these centers for four years. This will help speed up the

commercialization of research and development of new small businesses, with an emphasis on high-skill, high-wage jobs.

Economic Development Tool for Business Retention

The Committee made the following recommendations:

The Committee supports the concept of providing state and local government with an economic tool to assist in the retention of businesses that are considering relocating. A number of witnesses have suggested the expansion of the existing state EDGE credit to allow it to be used in such situations. However, the Committee also recognizes that it will prove difficult to ensure that such an economic development tool is in fact used only when businesses truly are considering relocation. Because of this, the Committee recommends further study of this issue.

Gaming Issues

The Committee made the following findings:

(1) Riverboat gaming has had a significant economic impact on Indiana, including the following:

(A) casinos in Indiana have paid more than $1.4 billion in direct project development costs;

(B) casinos employ over 12,500 persons in Indiana;

(C) since the commencement of casino gaming, over $283.1 million in admissions taxes have been collected and over $744 million in wagering taxes have been collected, for total tax collections that exceed $1.027 billion (not including property taxes, sales taxes, or income taxes paid by casinos or their employees);

(D) almost every host city has negotiated a "development agreement" with a riverboat, in which a riverboat pays a percentage of its adjusted gross receipts to the host community on an annual basis; and

(E) local units have used riverboat revenues for additional investments in infrastructure, equipment, and public safety.

(2) Gaming was authorized in 1993 in response to serious economic problems facing certain parts of northwestern Indiana and the areas along the Ohio River, because traditional economic development programs had not been able to solve long-standing problems of high unemployment, lack of capital investment, few high-paying jobs, and decaying infrastructure in these regions.

(3) A number of states have changed or are proposing to change their gaming laws in a manner that may have negative effects on Indiana's economy and its gaming industry. Some of these changes include:

(A) amendments to the Illinois gaming law in June that have eliminated cruising requirements for the state's nine riverboats;

(B) the transfer of a dormant gaming license in Illinois to Rosemont, near Chicago's O'Hare Airport;

(C) the opening of a casino in Detroit and the approval of other casinos that are expected to open soon in Detroit;

(D) the possibility of expanded Native American gaming in Michigan;

(E) proposals to allow slot machines at the Michigan racetracks;

(F) the possibility that a number of casinos may be established at "key entry points in Kentucky;"

(G) proposals to allow video slot machines and casino gaming at Kentucky racetracks; and

(H) the commissioning of a study by the State of Kentucky to examine the social and economic impact of expanding gambling in Kentucky; and

(I) the approval of open boarding for Missouri riverboats.

(4) The following recent changes to the adjusted gross receipts ("AGR") reported by Indiana and Illinois casinos have occurred:

(A) from June 1999 to July 1999, Indiana's total AGR increased by 16.09%, with every casino showing an increase;

(B) from July 1999 to August 1999, Indiana's total AGR decreased by 6.99%, with every casino except one showing a decrease;

(C) from June 1999 to July 1999, Illinois' total AGR increased by 28.02%, with every casino showing an increase;

(D) from July 1999 to August 1999, Illinois' total AGR decreased by 2.67%, with every casino except one showing a decrease;

(E) compared to July 1998, Indiana's July 1999 AGR had increased by 5.79%, with some casinos showing an increase and some showing a decrease;

(F) compared to August 1998, Indiana's August 1999 AGR had increased by 0.16%, with some casinos showing an increase and some showing a decrease;

(G) compared to July 1998, Illinois' July 1999 AGR had increased by 34.57%, with all casinos showing an increase of at least 18%; and

(H) compared to August 1998, Illinois' August 1999 AGR had increased by 35.05%, with all casinos showing an increase of at least 16%.

Illinois riverboat casinos' adjusted gross receipts have increased dramatically since Illinois converted to dockside gaming.

(The Committee notes that the figures described in this finding are on a calendar month basis, and that July 1999 had five weekends, while June 1999 and August 1999 had only four weekends.)

(5) The following recent changes to admissions reported by Indiana and Illinois casinos have occurred:

(A) from June 1999 to July 1999, Indiana's admissions increased by 22%, with every casino showing an increase;

(B) from July 1999 to August 1999, Indiana's admissions decreased by 7.34%, with every casino showing a decrease;

(C) from June 1999 to July 1999, Illinois' admissions increased by 50.16%, with every casino showing an increase;

(D) from July 1999 to August 1999, Illinois' admissions decreased by 5.69%, with every casino showing a decrease;

(E) compared to July 1998, Indiana's July 1999 admissions had increased by 0.55%, with some casinos showing an increase and some showing a decrease;

(F) compared to August 1998, Indiana's August 1999 admissions had decreased by 3.99%, with some casinos showing an increase and some showing a decrease;

(G) compared to July 1998, Illinois' July 1999 admissions had increased by 43.71%, with all casinos showing an increase of at least 30%; and

(H) compared to August 1998, Illinois' August 1999 admissions had increased by 40.43%, with all casinos showing an increase of at least 29%.

Illinois riverboat casinos' admissions figures have increased dramatically since Illinois converted to dockside gaming.

(The Committee notes that the figures described in this finding are on a calendar month basis, and that July 1999 had five weekends, while June 1999 and August 1999 had only four weekends.)

(6) The Committee was provided with the preliminary results of a research report prepared on behalf of the gaming industry. The report contained estimates of the impact that recent and proposed changes in border states' gaming legislation would have on Indiana's economy. The report included a baseline that involved estimates of the Indiana gaming market under the regional gaming conditions that existed on January 1, 1999, and it discussed the potential impacts of three scenarios:

(A) dockside gaming in Illinois, the expansion of Native American gaming in Michigan, and the development of casinos in Detroit;

(B) the development of land-based casinos in Kentucky; and

(C) a combination of the two previous scenarios.

This report estimated that all of the following would increase under the baseline scenario:

(A) gross Indiana casino revenues;

(B) direct casino jobs;

(C) gaming and admissions taxes;

(D) the total direct and indirect employment impact of gaming; and

(E) direct and indirect wages and salaries;

According to this report, the combined impact of the changes in Illinois, Michigan, and Kentucky would result in an approximately 30% reduction in gaming activity and its economic impact in the state. Compared to the baseline projections, the estimated impact of these changes would be: a 30.2% decline in gross casino revenues; a 30.7% decline in total expenditures; a 30.9% decline in total employment; a 31.0% decline in total wages and salaries; and a 23.2% decline in total tax revenues. The report predicted that northwestern Indiana would not only suffer losses compared to the estimated baseline, but would experience an absolute decline as well.

(7) Because there is still very little data available, it is difficult at this time to determine the impact that dockside gaming in Illinois will have on Indiana's economy, tax revenue, employment, and gaming revenues. Revenues received by the state of Indiana from the riverboat casino industry are the state's fifth largest source of income after sales tax, the individual income tax, corporate income taxes, and gasoline and motor fuel taxes.

(8) The National Gambling Impact Study Commission presented its final report in June 1999. The executive summary of this report was provided to all Committee members. The National Gambling Impact Study Commission's final report includes information on the size, scope, and nature of the gambling industry, and it addresses some of gambling's most problematic issues. The Commission's

final report also includes 76 recommendations on the issues of regulating gambling; problem and pathological gambling; Internet gambling; Native American gambling; gambling's impact on people and places; and future research.

(9) The Indiana Gambling Impact Study Commission has been studying for more than a year the impact of gambling in Indiana. As part of its study, the Commission is having numerous technical reports prepared on the social, economic, and fiscal consequences of gambling. The Commission's current work program calls for its final report to be released in December 1999.

(10) Over 760 persons are currently employed in casino maritime jobs related to the cruising of Indiana's riverboat casinos. These persons are employed in positions such as captains, mates, engineers, able seamen, oilers, ordinary seamen, and firewatch patrols. These maritime employees are currently responsible for the safety of riverboats and their passengers.

(11) The link between the gaming industry and the horse racing industry appears to have been beneficial to the horse racing industry and the economy of Indiana, and it has further encouraged quality standardbred and thoroughbred breeding in the state. The Committee notes that the recently enacted Illinois gaming legislation followed the Indiana model and included a funding mechanism linking gaming and horse racing.

The Committee did not make any recommendations concerning gaming issues. Given the length and the depth of the study that the Indiana Gambling Impact Study Commission has been undertaking, the Chair of the Committee determined that it would not be appropriate for the Committee to make recommendations on gaming issues before the release of the Indiana Gambling Impact Study Commission's final report.

Proposed Legislation Recommended by the Committee

The Committee adopted the following preliminary drafts for recommendation to the General Assembly:

(1) <u>PD 3524 (with amendments),</u> concerning property tax abatement for research and development equipment; adopted by a unanimous consent vote of the eleven Committee members attending the meeting.

(2) <u>PD 3525,</u> concerning sales tax exemptions for research and development equipment and for power used for research and development; adopted by a seven to four vote of Committee members.

(3) <u>PD 3526,</u> concerning the Indiana research expense credit; adopted by a unanimous consent vote of the eleven Committee members attending the meeting.

(4) <u>PD 3530,</u> concerning enterprise zones; adopted by a unanimous consent vote of the eleven Committee members attending the meeting.

The final report of the Committee was adopted by a unanimous consent vote of the eleven Committee members attending the meeting.

W I T N E S S L I S T

August 3, 1999

Tom McKenna, Executive Director, Indiana Department of Commerce
Wendy Dant, Executive Director, Indiana Rural Development Council
James Plump, President, Indiana Economic Development Association
Linda Williamson, Bloomington Economic Development Corporation
Chris Hastings, Indiana Enterprise Zone Association
Julie Newland, Eli Lilly and Co.
Terry Magid, Eli Lilly and Co.
Larry Stroble, Barnes & Thornburg
Mr. Braumbarger, President, Bitwise Solutions
Tom Harmon, Chairman, Build Indiana Council
Jesse Moore, Indiana Chamber of Commerce
Maclyn Parker, Baker & Daniels
Graham Toft, Indiana Economic Development Council
Senator Frank Mrvan

August 24, 1999

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Bill Sheldrake, President, Indiana Fiscal Policy Institute
Graham Toft, Indiana Economic Development Council
Mike Miles, Concord Partners
David Becker, Chairman, First Internet Bank of Indiana
Mike Brooks, Greater Lafayette Progress

September 14, 1999

Senator David Long
Beth Neu, Director of Development, City of Ft. Wayne
Dennis Carson, President, Indiana Enterprise Zone Association
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Mike Gery, Executive Assistant to the Governor
Mark Rosentraub, Dean, Indiana University School of Public and Environmental Affairs
David Bottorff, Association of Indiana Counties
Doug England, Mayor, City of New Albany
John Fernandez, Mayor, City of Bloomington
Craig Berndt, Planning and Development Director, City of Huntingburg
Harold Gutzwiller, Economic Development Director, Town of Mooresville
Jesse Moore, Indiana Chamber of Commerce
Jason Shelley, Insurance Institute of Indiana

October 5, 1999

Jack Thar, Executive Director, Indiana Gaming Commisson
Ron Gifford, Baker & Daniels
Andrew Moody, PriceWaterhouseCoopers
Scott King, Mayor of Gary
Monte Denbo
John Wolf, State Coordinator, Indiana Coalition Against Legalized Gambling
Walter Schultz, Southern Indiana Citizens Against Legalized Gambling
Lonnie Partridge, Seafarers Entertainment and Allied Trades Union
Tyler Vogt, Organization of Casino Mariners
Rick Moore, General Manager, Hoosier Park
Robert Spolyar
James Dickerson
Spero Batistitos, Lake County Convention and Visitors Bureau

October 26, 1999

Julie Newland, Eli Lilly and Company
Terry Magid, Eli Lilly and Company
Terry Streuh, Purdue University
Wendy Dant, Executive Director, Indiana Rural Development Council
Connie Vickery, representing the Indiana Enterprise Zone Association